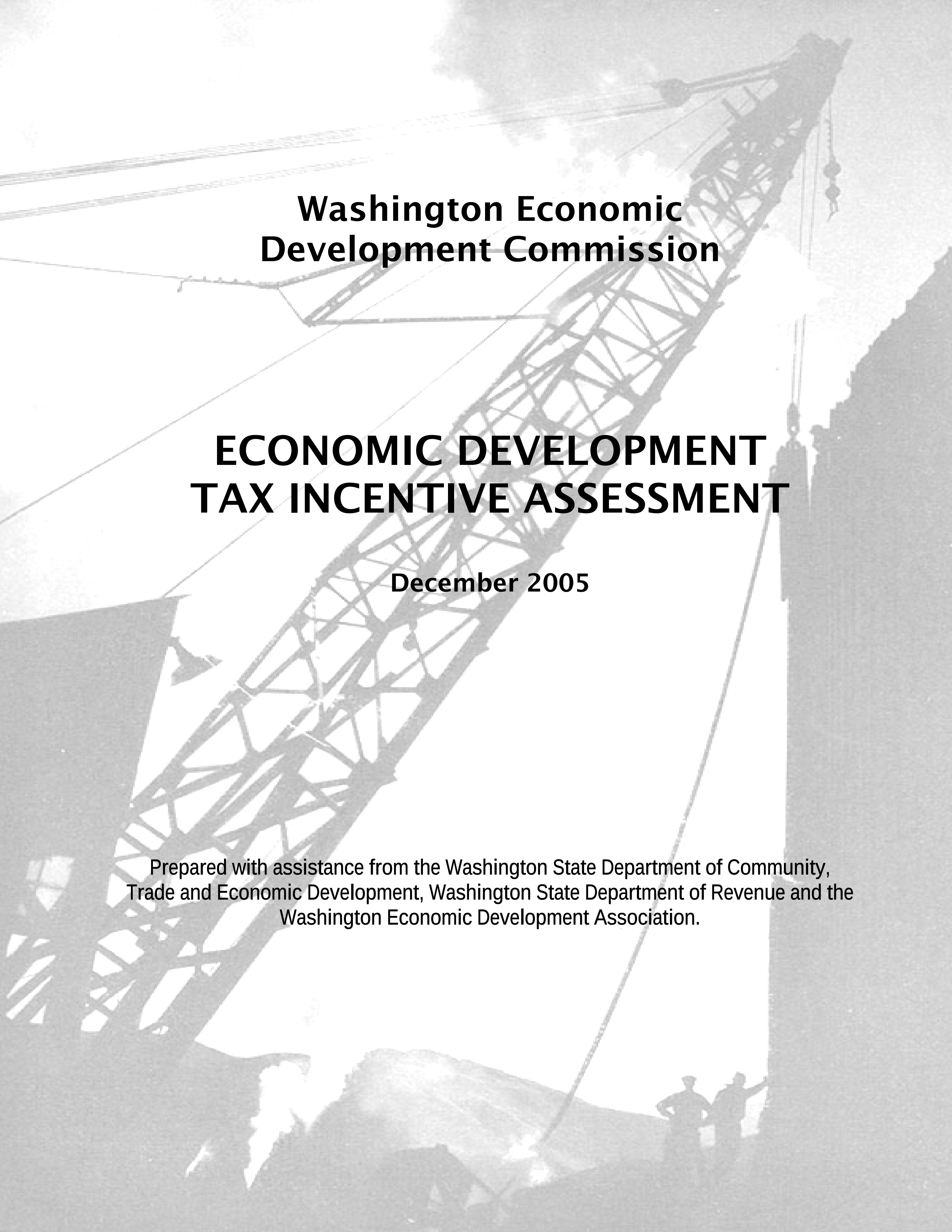

Washington Economic Development Commission

ECONOMIC DEVELOPMENT TAX INCENTIVE ASSESSMENT

December 2005

Prepared with assistance from the Washington State Department of Community, Trade and Economic Development, Washington State Department of Revenue and the Washington Economic Development Association.

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Purpose of Study

The purpose of this report is (1) to provide an assessment of the strengths and weaknesses of Washington's tax incentives for business, (2) to compare Washington's tax incentives with those of its competitor states, and (3) to recommend a process for a broader evaluation and the development of recommendations for all types of business incentives in light of the *Cuno v. DaimlerChrysler* case.

Process

The Economic Development Commission formed a Work Group to conduct an assessment of economic development tax incentives. The Work Group surveyed Washington's Economic Development Councils and site selection professionals from around the country, and compiled information to compare Washington's tax incentives to those of its primary competitor states, Oregon and Idaho.

Comparative Tax Incentive Information

The report provides detailed information comparing the tax incentives available by industry in Washington, Oregon and Idaho. Based on the comparisons, the Work Group provided specific areas where the Commission could consider further examination of the costs and benefits of Washington's tax incentives.

For tax incentives for land and buildings:

- Should the state exempt the labor portion of a construction contract from sales tax?
- Should the current deferral/waiver program for manufacturers in rural counties and distressed areas be expanded statewide as are the programs for high technology businesses and fruit and vegetable processors to compete with Oregon and Idaho's tax treatment of construction?
- Should other types of high technology be included in the current deferral/waiver program for high technology businesses? Should the program be expanded to include any research and development operation?
- Should the current deferral/waiver program for manufacturers in rural counties and distressed areas be modified to use a standard other than the Community Empowerment Zone (CEZ)?
- Should Washington use wages/benefits provided to employees rather than employee residence in a CEZ as a program requirement?

For tax incentives for business income:

- Should the B&O tax be replaced?
- In lieu of replacing the B&O tax, should the state eliminate or consolidate preferential B&O tax rates and major tax exemptions to simplify the tax system?

- Should the state review tax preferences on a systematic basis to make sure economic and social goals are achieved?

For tax incentives for workforce:

- Should Washington's tax credit for new jobs to manufacturing, research and development, or computer-related service firm that locates or expands in a rural county or CEZ be expanded?
- Should the state offer a tax incentive related to workforce training that is available statewide?
- Are tax incentives the best strategy for funding workforce training?

For tax incentives for apportionment:

- Should Washington adopt a three-factor apportionment method, which is used most commonly throughout the nation?
- If Washington were to adopt a three-factor apportionment method, should the sales factor be given any greater weight?

For tax incentives for other industries:

- Washington's R&D tax credit is limited to five areas of high technology. Should other types of high technology be added to R&D tax credit program?
- If the R&D tax credit is expanded to other areas of high technology or to all research and development activities (like Oregon and Idaho), should the savings to firms be reduced to offset the cost of expansion?

Recommendations

The Work Group recommends the Commission support the following largely non-controversial tax issues that could be resolved by legislation in the 2006 session.

Recommendation 1: Provide Uniformity for Deferral Programs
Recommendation 2: Improve B&O Tax Credit for New Jobs in Rural Counties
Recommendation 3: Revise Tax Incentive Accountability Reports
Recommendation 4: Clarify Aerospace Legislation
Recommendation 5: Extend Aviation Repair Services Tax Preference

In addition, the Work Group recommends the Commission convene a broader group of stakeholders to conduct a thorough review of the efficacy of Washington's economic development tax incentives, as defined by this report.

Recommendation 6: Continue the Evaluation of Economic Development Tax Incentives

II. INTRODUCTION

Purpose

The purpose of this report is (1) to provide an assessment of the strengths and weaknesses of Washington's tax incentives for business, (2) to compare Washington's tax incentives with those of its competitor states, and (3) to recommend a process for a broader evaluation and the development of recommendations for all types of business incentives, particularly in light of the pending *Cuno v. DaimlerChrysler* case.

Background

Why should policy-makers pay attention to economic development incentives? *Area Development Magazine* conducts an annual survey of corporate executives to identify their most important criteria in making decisions relative to business investment. Of twenty-four selection factors, executives ranked state and local incentives as third most important in each of the past two surveys. Clearly, incentives have a direct impact on the competitiveness of business and the creation of employment opportunities in Washington State.

In its first year, the Washington Economic Development Commission ("Commission") focused its strategies around four priorities. Business retention and expansion and business recruitment comprised two of the Commission's four priorities. The Commission has heard from local economic development partners and stakeholders around the state that Washington's currently available economic development incentives are not adequate to ensure our competitiveness relative to other states.

At its quarterly meeting on August 16, 2005, the Commission created a Work Group to conduct an assessment of the state's economic development incentives. The Commission asked the Work Group to report its initial findings and recommendations at the November, 2005 quarterly meeting. Given the short time frame, the Commission limited the initial scope of the examination to the state's *tax* incentives, as a first step in a broader, more comprehensive review. For the purposes of remaining within the scope of this report, the Work Group considers an economic development tax incentive as accruing a direct monetary benefit to a taxpaying entity.

Recognizing that business recruitment, retention and expansion decisions are frequently based on a multitude of factors in addition to available tax incentives, the Commission asked that the Work Group recommend a process and timeline for separate examinations of other economic development incentives.

Tax Incentives – the Landscape is Changing

Tax incentives for economic development are a relatively recent trend in state tax policy, beginning in the 1980's. Left largely unfettered in the type and amount of incentives offered to firms, there are few (if any) states that do not offer tax incentives. However, some states, such as Washington, are limited in the type of tax incentives that can be offered. The Washington State Constitution's prohibition on lending of state credit, gifting of public funds, and dedication of state property tax revenues to common schools have each limited Washington's ability to offer incentives that other state's commonly use, such as tax increment financing and property tax abatements. Our state's limited "toolbox" of incentives is believed to hamper Washington's ability to compete with states that are relatively unconstrained in crafting incentives.

Whether states are, in fact, unconstrained in crafting tax incentives is being debated in two forums – the United States Supreme Court and the World Trade Organizations. The outcome of those debates has national and international implications, but what impact they will have unknown. Consequently, further review of Washington's tax incentives is necessary exercise, but the timing of it is less certain.

Cuno v. DaimlerChrysler

In 1998, DaimlerChrysler agreed to construct a new $1.2 billion Jeep assembly plant near an existing facility and to create approximately 5,000 jobs in Toledo, Ohio. In exchange, the City of Toledo agreed to provide approximately $280 million in tax incentives. The tax incentives took the form of credits against the Ohio franchise tax and a ten-year, 100% property tax exemption. A group of Toledo citizens and businesses subsequently challenged the constitutionality of the agreement under the commerce clause of the United States Constitution.

In 2004 the United States Court of Appeals for the Sixth Circuit ruled in *Cuno v. DaimlerChrysler* that Ohio had violated the commerce clause of the United States Constitution when it granted DaimlerChrysler an investment tax credit against its Ohio franchise tax liability in order to encourage DaimlerChrysler to locate a new manufacturing facility within Ohio rather than in some other state. The Sixth Circuit Court held that incentives to encourage further investment in Ohio at the expense of development in other states serve to hinder free trade among the states, and therefore, violate the commerce clause. The court enjoined Ohio from enforcing the investment tax credit. However, the Sixth Circuit Court also held that the property abatements were allowed because the benefit is directly related to the situs and/or use of the property.

Both parties appealed the *Cuno* decision to the United States Supreme Court and on September 27, 2005 the Court agreed to review the case. In addition to the questions presented by the petitions, the parties are directed to brief and argue the following question: Whether respondents have standing to challenge Ohio's investment tax credit?

It is not known what effect of a United States Supreme Court decision will have. The *Cuno* case calls into question the constitutionality of tax incentives based on in-state economic activity that have long been routinely employed by at least 40 states.

If the United States Supreme Court rules against Ohio in the *Cuno* case, there is no consistent rule regarding what happens when a tax or economic incentive is found to be unconstitutional. Historically, the United States Supreme Court has largely left it to the states to fashion a remedy that is appropriate to the facts and findings of the case. Thus, whether taxpayers have to reimburse states for the value of the tax incentives, whether other taxpayers are entitled to the tax incentives (and thus, entitled to refunds), or whether the tax incentives are invalid prospectively is unknown. The only certainty is that further litigation will follow if Ohio's tax incentives are found to be unconstitutional.

Conversely, the Supreme Court could uphold the validity of the tax incentives or could dispose of the case on the standing issue without addressing the merits of the commerce clause claims. These outcomes would, for the moment, maintain the status quo. Similar cases already are pending in Minnesota, Nebraska, Oklahoma and North Carolina. One of these cases could also reach the United States Supreme Court if *Cuno* does not render those challenges moot.

The World Trade Organization (WTO)

The WTO Agreement is an agreement between 148 nations dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. Unlike previous trade agreements, the WTO Agreement has enforcement mechanisms. Any member of the WTO can file a complaint against another of the body's 148 members and request that a tribunal, generally a three person panel, be formed to settle the trade dispute. If a country fails to comply with the trade tribunal's findings, the WTO can authorize the prevailing nation to impose tariffs.

Prohibited and actionable subsidies are subject to challenge in the WTO and subject to countervailing measures (tariffs). A “subsidy” is a (i) a financial contribution (ii) by a government or any public body within the territory of a Member (iii) which confers a benefit. All three of these elements must be satisfied in order for a subsidy to exist. Most subsidies fall in the category of “actionable subsidies.” Actionable subsidies are not prohibited. However, they are subject to challenge in the event that they cause adverse effects to the interests of another member.

In addition to being a subsidy, the subsidy must be specifically provided to an enterprise or industry or group of enterprises or industries to be actionable under the WTO Agreement. The basic principle is that a subsidy that distorts the allocation of resources within an economy should be subject to discipline. Where a subsidy is widely available within an economy, such a distortion in the allocation of resources is presumed not to occur. Thus, only “specific” subsidies are subject to the SCM Agreement disciplines.

In June 2005 the United States filed a complaint with the WTO that launch-aid and other aid (infrastructure, R&D aid, military contracts) provided by the European Union to

Airbus are illegal subsidies. The European Union filed its own complaint with the WTO in June, 2005 claiming that Washington's aerospace incentives passed in 2003 and other federal and state aid (infrastructure, R&D aid, and military contracts) are illegal subsidies.

What impact the outcome of this dispute will have on state tax incentives is not certain. The WTO Agreement favors settlements of disputes. However, the case is notable in that international agreements may constrain a state's power to use its taxing power for economic development.

Process for Initial Review

Over time, Washington has developed what can be characterized as a patchwork of economic development tax incentives. These are, on the whole, designed to defer, reduce or avoid costs (taxes) in return for the economic and social benefits that derive from business retention, expansion, or recruitment. Companies form, remain or relocate in Washington for a multitude of reasons. Two important, if not critical, considerations are the desire for a business to enhance its income potential and to reduce its cost of doing business. Washington’s economic development tax incentives may be demonstrably successful in some cases, such as warehouse operations, while in other circumstances their effectiveness may be difficult to evaluate based on a conventional analysis (i.e., number of new jobs created). Alternative measures such as anecdotal information may be warranted to evaluate the efficacy of some economic development tax incentives.

To prepare this report, the Work Group compiled tax incentive data and performed cursory surveys of economic development professionals to gain a better understanding of how certain “incentives” function in practice. Given the compressed time frame with which to complete its analysis, the Work Group focused its comparison of state tax incentives on those available in Washington, Oregon and Idaho. The surveys targeted Washington’s Economic Development Councils (EDCs) and site selection consultants to complement the quantitative data and help illustrate the strengths and weaknesses of the state’s economic development tax incentives relative to those available in competitor states from practitioners’ perspectives.

Survey Methodology
The Work Group surveyed both Economic Development Councils around Washington and site selection professionals around the United States to compile anecdotal information about their experiences with Washington’s tax incentives and those of the state’s primary competitors. In addition, the Work Group asked the Department of Community, Trade and Economic Development’s (CTED) field staff working in business recruitment, retention and expansion activities to summarize some of their experiences where businesses were lost to competitor states offering more attractive economic development tax incentives.

Economic Development Councils were asked to respond to the following questions:

- What are Washington's tax incentives that you most frequently use in the recruitment or retention (to include expansion) of businesses in your area?
- What states do you most often compete against when attempting to recruit or retain business?
- Please list experiences where you weren't able to recruit or retain a business because a competitor state was able to offer a tax incentive not currently available in Washington. Please identify the tax incentives these states have offered those businesses.
- Please identify tax incentives you would like to see available for use in Washington to recruit and retain business.

Site selection professionals were asked similar questions, with particular emphasis on their experiences, if any, in attempting to site business in Washington. Site selectors were asked to respond to the following questions:

- Have you considered Washington State on behalf of any of your clients within the past 3 years?
- What are Washington's strengths?
- What are Washington's weaknesses?
- Do you distinguish business climate differences in different regions of Washington State? Please explain.
- In general, do you consider Washington a competitive state in which to develop business?
- Which are the top 3 states you've worked with in terms of quality/usefulness of incentive packages?
- What types of incentives or other resources have you found to be most valuable for your clients?
- What industries do you most frequently assist in site selection?
- If you personally were to design one or two tax incentives to encourage the recruitment of top tier companies that pay above average wages, what would those incentives look like?

State Tax Incentive Data

The Work Group compiled information comparing the economic development tax incentives by industry for Washington, Oregon and Idaho. The report includes information in the following industries: Aerospace, Value-add agriculture/food processing; Alternative Energy; Distribution; Forest Products; Life Sciences; Manufacturing; Technology and Other Industries. Within each industry for each of the states, tax incentives are organized by those available for land and buildings, workforce, equipment, distribution, income and "other".

III. SURVEY RESULTS

EDC Survey Results

Table 1 provides a summary of survey responses received from EDCs around the state. A total of 12 EDCs provided information. Comprehensive survey responses are provided in Appendix A.

Ten of the twelve respondents were from rural counties, and two were from urban counties. For those responding, Idaho and Oregon are the two states most frequently named as competitors for new business. Most of the respondents listed sales and use tax exemptions for machinery and equipment and rural tax incentives as those most frequently used. Several desired incentives emerged as common throughout the survey, and were listed as reasons the EDCs lost business to another state. Those include Tax Increment Financing (TIF), Workforce Training money, and expanded Community Empowerment Zones.

Site Selector Survey Results

Table 2 provides comprehensive responses from site selection professionals responding to the survey questions. A total of 11 site selectors provided information. The responses were anonymous, so information about the location of the site selectors is not provided.

Site selector responses were mixed. Quality of life and workforce were consistently listed as Washington’s strengths. Weak incentives and high tax burden are the two most frequently listed weaknesses. An equal number of participants believe Washington is competitive as believe it is not. There was no specific concentration of responses for the states whose incentives are most useful, although lower taxes was listed most often as the most valuable incentive for clients of the site selectors.

Once again, workforce training assistance was frequently listed as a desired incentive, as was simplicity of understanding the incentives themselves.

Table 1. Summary of Economic Development Council Survey Responses

County	Frequently Used Tax Incentives	Competitor States	Competitor States' Incentives	Desired WA Incentives
Grays Harbor	• Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Rural county/Community Empowerment Zone B&O tax credit for new employees (Chapter 82.62 RCW) • Tax Credit for Help-Desk Services firms located in a rural county (RCW 82.04.4484) • JSP funds for training (when avail)	• Oregon • Idaho • California	Oregon offered to pay to bring rail, gas and electricity to Coos Bay and offered a 15 yr credit on property taxes to recruit Nucore Steel.	• Tax increment financing • Direct payment to companies for training • Property tax relief for recruited or expanding businesses • B&O Tax relief equivalent to costs incurred due to state over regulation and requirements.
Kitsap	• Industrial Revenue Bonds • Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • High technology B&O tax credit for qualified research and development spending (RCW 82.04.4452) • Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Rural county/Community Empowerment Zone B&O tax credit for new employees (Chapter 82.62 RCW)	• Oregon • Idaho • Nevada • California • Florida	None	• Tax increment financing

Table 1. Summary of Economic Development Council Survey Responses

County	Frequently Used Tax Incentives	Competitor States	Competitor States' Incentives	Desired WA Incentives
Pacific	None: primary businesses are retail or service with less than 40 employees.	Primarily compete within the state	No Response	• Incentives for small business (less than 40 employees).
Spokane	• Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW)	• Idaho • Oregon	Buck Knives moved from San Diego to Idaho as a result of upfront payments from Idaho for employee training $2,000/employee. Royal Caribbean Cruise Lines chose Oregon as a result of no sales tax on construction and abatements of property tax.	• Expand CEZ program to allow for sales tax exemptions & B&O credits to be provided to more industry types. Perhaps base eligibility on company's wage rates rather than industry type. (Company must pay county median wage or above to qualify) Increase minimum gross income for small companies' payment of B&O by 2 times current level.
Cowlitz	• Rural county/Community Empowerment Zone B&O tax credit for new employees (Chapter 82.62 RCW) • Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Workforce Development Opportunity Fund (through SWWDC)	• Oregon	property tax exemptions	• Tax increment financing
Richland	• JARP Training • High technology B&O tax credit for qualified research and development spending (RCW	• Idaho • Oregon • California	No Response	• lottery dollars specifically earmarked for economic development.

Table 1. Summary of Economic Development Council Survey Responses

County	Frequently Used Tax Incentives	Competitor States	Competitor States' Incentives	Desired WA Incentives
	82.04.4452)			• more effective tax incentives tied to tax increment financing and to redevelopment of underutilized areas.
Colombia River	• Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Warehouse tax incentive (82.08.820)	• Oregon • California • Japan • Taiwan	Oregon offered significant forgivable loans (approximately $1.4 mil.) tied to job creation in the loss of 4 companies. These clients would have created 500+ new jobs in Clark Co.	• measures that truly incent reinvestment and expansion of the entire semiconductor cluster. need true workforce training incentives/ grants for recruited firms.
Klickitat	• Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • Sales tax deferral/exemption for qualified buildings and qualified machinery and equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Rural county/Community Empowerment Zone B&O tax credit for new employees (Chapter 82.62 RCW)	• Oregon	Klickitat lost a light manufacturing facility to Oregon, because general manager was concerned with perceived issues surrounding the B&O tax and Oregon provided direct relocation cost assistance.	• A way to explain how the incentives work so relocating firms know the direct impacts on them, rather than generic explanations on websites or publications. • Expanded CEZs • "shovel-ready sites"
Grant	• Sales and use tax exemption for machinery and equipment used by a manufacturer or research and development operation (RCW 82.08.02565) • Sales tax deferral/exemption for qualified buildings and qualified machinery and	• Oregon • Idaho • California	Montana has a very aggressive Tax Increment Financing Program available for industrial projects.	• A substantial State supported Workforce Training Assistance program. • A user- friendly and meaningful tax increment financing program.

Table 1. Summary of Economic Development Council Survey Responses

County	Frequently Used Tax Incentives	Competitor States	Competitor States' Incentives	Desired WA Incentives
	equipment for a manufacturer or research and development operation in a rural county or distressed area (Chapter 82.60 RCW) • Rural county/Community Empowerment Zone B&O tax credit for new employees (Chapter 82.62 RCW) • Warehouse tax incentive (82.08.820)			• A state utility tax incentive program for industrial (manufacturing and food processing) power users of gas and electric utilities. • A state program for eliminating state fuel and sales tax on biodiesel or ethanol that is produced and sold in Washington.
Snohomish	• Incentives for manufacturers of commercial airplanes and manufacturers of component parts	No Response	No Response	• Providing tax incentives to aerospace companies that lease properties within the State of Washington. • Aerospace legislation needs to be broadened to include manufacturing and engineering for: space vehicles, space exploration, military aircraft including unmanned vehicles. It should include the manufacturing and engineering of component parts that are installed on space vehicles, space exploration, military aircraft including unmanned vehicles.
Douglas	No Response	• Oregon • Idaho • California • Nevada • Arizona	No Response	• A relocation fund in the form of grants or low interest loans based on the size of employment, wage rate, or some other measurable criteria.

Table 1. Summary of Economic Development Council Survey Responses

County	Frequently Used Tax Incentives	Competitor States	Competitor States' Incentives	Desired WA Incentives
		• New Mexico • Colorado • Montana • Wyoming • Utah		
Palouse	• Job training incentives (OJT, JSP) • HUD 108 Float Loan	• Idaho • Oregon • Wyoming • Montana • California • Nevada	Idaho's training incentive: is different interpretation of lending of credit issue—ID considers workforce training $$ as "contract for services" to businesses, paying $3000 per employee (ie, goes directly to companies rather than having to go through community colleges and training those instructors). TX does the same thing. Areas that give land (TX) or just pay for employees---in marketing campaign, will give incentive per employee for new jobs created (up to $1 mil)	• Education and training to be more like ID • TIF like ID. In IOWA, schools can "opt in" to have state portion used. • For rural counties, expand infrastructure assistance to retail. Cannot attract other businesses without retail. • Ability to sell "credits" for rural tax incentives to non-rural counties… • Incentives for companies to expand to rural areas rather than outside the state.

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Table 2. Site Selector Survey Responses

Have you considered Washington State on behalf of any of your clients within the past 3 years?	WA Strengths	WA Weaknesses	Is WA a competitive state in which to develop business?	Do you distinguish business climate differences in different regions of WA State?	What are the top 3 states you've worked with in terms of quality/usefulness of incentive packages?	What types of incentives are most valuable for your clients?	What industries do you most frequently assist in site selection?	If you were to design one or two tax incentives to encourage recruitment of top tier companies, what would they look like?
Yes	Climate, quality of life	Did not progress far enough to find out	No	No	• North Dakota • South Dakota • Oklahoma	Anything that lowers the capital investment. Number one would be free land.	Light to heavy manufacturing. Metal finishing, building materials, distribution.	• They would be very very simple to understand and implement. • They lower the entry cost; ie, free land, grants, etc. • Continued long term cost of doing business is important. Weighted state tax formula that gives favorable treatment to goods ship out of the state (advantage to the state is that this imports new money)
No	quality of life	weak incentives	No	no	• Tennessee • Mississippi • Maryland	• Cash grants • Training grants • Tax credits	All	Cash
yes, we love Washington state-- and have the belief that the educational system and high tech nature of the surrounding Seattle areas are a draw.	educated workforce, good business climate...	viewed as a long way for some	yes	I do not	• S Carolina • Connecticut • Texas	• Employee incentives • Sales tax incentives, etc	corp 1000	No response

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Have you considered Washington State on behalf of any of your clients within the past 3 years?	WA Strengths	WA Weaknesses	Is WA a competitive state in which to develop business?	Do you distinguish business climate differences in different regions of WA State?	What are the top 3 states you've worked with in terms of quality/usefulness of incentive packages?	What types of incentives are most valuable for your clients?	What industries do you most frequently assist in site selection?	If you were to design one or two tax incentives to encourage recruitment of top tier companies, what would they look like?
Yes, both for manufacturing and back office.	a) quality workforce; (b) moderate labor costs; (c) transportation infrastructure; (d) educational resources; (e) electric power; (f) wide array of communities.	(a) state labor legislation; (b) high overall tax burden; (c) permit approval time; (d) uncompetitive incentives	Yes, despite the state's antipathy toward business	On balance, state is unfavorable. Conditions are worse in King County due to traffic congestion, permitting, and high costs. Elsewhere, local business climate is pretty good.	• Oklahoma • Kansas • Illinois	Performance based payroll cash rebates as in OK, KS, IL	Back office, distribution, consumer goods manufacturing	• Up to 5% of salary cash rebate for up to 10 years, • credits/exemptions on gross receipts tax anywhere in the state, • property tax abatement anywhere in the state (local choice)
No -- has not come up for a site selection (been working in other regions of the US -- notably the Midwest & Southeast).	No personal income tax comes to mind; technical & creative workforce (Seattle); Quality of life is excellent; relatively low cost of living; quality universities, availability of land (as you go east) at lower prices	Air access is somewhat limited, small population base	Sure	No idea. If I have to guess: Seattle/Tacoma dominate state economy. Spokane is more rural, but growing. Higher desirability to live in Eastern WA -- near Idaho... popular for retirement. Also Pasco region is growing tremendously.	GA, MS, AL -- they are aggressive, resourceful and knowledgeable; ie., they "get it". Most Western states offer little by way of incentives (e.g., CA, AZ, etc.) and there is a huge knowledge curve on effective economic development practices -- in general. Majority of ED groups on west coast are unknowledgeable about site selection process -- and must teach them as we go. They are lax in responsiveness to RFI's, setting up site tours, etc. They don't' get how serious the consultant and company are in considering their state/municipality as a possible site location.	Depends on company type, size, industry, etc • Anything to assist offset start up costs; ie., job tax credits, infrastructure assistance • Incentives are not the sole reason to locate in any geography. All things equal when comparing communities (operations, labor, costs, etc.) incentives play a role to help "level the playing field between 2 or 3 competing communities".	Financial services, manufacturing, call centers, media	• Wage tax credit is helpful and easy to estimate. • Is impossible to decipher potential $$ value from states' incentive packages-- providing clear, simple explanation and past example are key. • Georgia is at forefront by breaking the state incentives into Tiers 1-4 -- throughout the state (rural, urban, etc.). Also offer one of the best job training programs. • Illinois and Indiana have the EDGE credit.

Table 2. Site Selector Survey Responses

Have you considered Washington State on behalf of any of your clients within the past 3 years?	WA Strengths	WA Weaknesses	Is WA a competitive state in which to develop business?	Do you distinguish business climate differences in different regions of WA State?	What are the top 3 states you've worked with in terms of quality/usefulness of incentive packages?	What types of incentives are most valuable for your clients?	What industries do you most frequently assist in site selection?	If you were to design one or two tax incentives to encourage recruitment of top tier companies, what would they look like?
Yes - CallCenterSites.Net has recommended that clients look at Washington State.	Several strengths, including climate and incentives.	It depends on the specifications of our clients and what their requirements are.	Yes		• Tennessee • Texas • Arizona	Tax abatements, cash....	Call Centers	Specific, to the point.... Depends on clients requirements...
No. This question is confusing.	I live here. I had no choice but to start my business here. I did not evaluate WA state		No.	Mojave County in AZ has a ridiculous law that states that voice and data cannot be transmitted across the same T-1 line!	n/a	Reduction in taxes.	n/a	• Reduce any tax that is paid by the hour worked • Create an incentive for real estate developer to SELL property to companies at below-market rates so Companies will move to the area as property owners...not renters.
No	N/A		No, taxes too high.	Not really. Our clients are in the plastics industry and serve a specific market base	• Nebraska, Oklahoma and Missouri	Low utility costs, low corporate taxes, training incentives and tax abatements	plastics	I personally do not like incentives, so I'm not a good person to ask this question
yes		EDC has no ammunition (programs) . If you aren't aerospace giant you get zip. Roads are a mess and State Govt is bloated and spends a lot with little results. Not a business friendly state	Not at all	Local differences but still overshadowed by State Govt	Mississippi and Florida. The first with cap investment assistance, the latter with utility help - electricity is cheaper in Florida for a commercial user than Tacoma. Tacoma utility has too much cronyism and only gives lower rates to mega corps.	• Availability of capital for fixed asset investment. Relief from regressive taxes to get you started like B and O and out of control L and I	Mfg	Make state Ind Insurance private and spend money that is already in hand to do some good...Wash State is run like a charity where 90% of donations go to bureaucracy and 10% go to those in need. Also, the Boeing debacle cost 250,000 per job created. Totally unfair to other business.

Table 2. Site Selector Survey Responses

Have you considered Washington State on behalf of any of your clients within the past 3 years?	WA Strengths	WA Weaknesses	Is WA a competitive state in which to develop business?	Do you distinguish business climate differences in different regions of WA State?	What are the top 3 states you've worked with in terms of quality/usefulness of incentive packages?	What types of incentives are most valuable for your clients?	What industries do you most frequently assist in site selection?	If you were to design one or two tax incentives to encourage recruitment of top tier companies, what would they look like?
No Most of my clients are automotive related and there has not been a requirement in your area	Not applicable	Not applicable	Not applicable	Not applicable	• Alabama • Virginia • North Carolina	Varies with the client. Each requirement is unique	Automotive and Plastic Injection Molding	
Yes	The area where the state has the most available land is the most remote from the population. West of the mountains, entitled land is difficult to find and the entitlement process is viewed as lengthy and difficult.		In general, yes for the eastern part of the state. No for the western	Yes, east of the mountains clearly has a more business friendly attitude and appears to be more interested in growth	• Georgia • Alabama • Oklahoma	• Free land • Infrastructure improvements • Tax abatements	Distribution	I would incentivize those type positions directly. For example: Oklahoma's Quality Jobs, where they actually refund cash payments on a quarterly basis for new jobs in certain industries. Be sure the work force supports the industry, if not look at the training programs being offered and make them the best in the nation for that industry. Be realistic about the industry being pursued, i.e., be sure they fit in the Northwest from a business perspective

IV. TAX STRUCTURES: WASHINGTON, IDAHO AND OREGON

Background

When comparing tax incentives offered in Idaho, Oregon and Washington, it's important to have an understanding of what is common in most states as well as getting clear on the specific features of these three states' tax structures.

Common Taxes:
- Property Taxes are imposed in all 50 states
- Sales Taxes are imposed in 46 states and the District of Columbia *(excludes Oregon, Montana, Delaware, and New Hampshire)*
- Corporate Income Taxes are imposed in 46 states *(excludes Washington State, Nevada, Wyoming, and Nebraska)*
- Individual Income Taxes are imposed in 43 states *(excludes Washington State, Nevada, Wyoming, North Dakota, Texas, Florida, and Alaska)*
- Capital Gains Taxes are imposed in 40 states *(excludes Washington, Nevada, Wyoming, South Dakota, Texas, Arkansas, Tennessee, Mississippi, New Hampshire, and Florida).*

Idaho's Tax Structure

Most of Idaho's state tax revenues come from two sources - income tax (individual and corporate) and retail sales tax. Income tax and sales tax are administered by the Idaho State Tax Commission. Property taxes are administered by the county in which the property is located.

Facts about Idaho taxes

Idaho imposes:	**Idaho does not impose:**
Individual income tax	Property tax on motor vehicles
Corporate income tax	Property tax on business inventories
Tax on capital gains	Estate, inheritance, or gift taxes
Retail sales and use taxes	
Property tax (local only)	

Individual Income Tax

Idaho's individual income tax is graduated so higher earnings are taxed at a higher rate. The first $1,159 of taxable income is taxed at 1.6 percent; the next $1,159 is taxed at 3.6 percent, etc. The maximum 7.8 percent tax rate is reached at $23,178 of taxable income for single filers and $46,356 for married couples filing jointly. Idaho residents are taxed on their total income, even if it is earned in another state or country. Idaho income tax brackets are adjusted for inflation each year.

Idaho does not have a special tax rate for gains and losses on stocks, bonds, or other intangibles. Idaho does have a deduction of up to 60 percent of the capital gain net income of qualifying Idaho property.

Corporate Income Tax
Idaho levies a 7.6% tax on Idaho taxable income. A minimum tax payment of $20.00 is required. Multi-state corporations must apportion their total income nationwide to determine what amount is subject to Idaho's tax (Idaho taxable income). Idaho uses a traditional three-factor formula (consisting of property, sales, and payroll factors) to apportion income to their state; the sales factor is double-weighted.

Property Tax
Total property taxes in Idaho are limited to 1.0% of the market value of the parcel. All levies are made by local jurisdictions; the state does not currently impose a property tax levy.

Retail Sales Tax
Idaho imposes a 5% retail sales tax on the sale, rental, or lease of tangible personal property and some services. Food is subject to tax, but prescription drugs are not. Hotel, motel, and campground accommodations are taxed at higher rates from 7 percent to 11 percent. Idaho's general local sales taxes are confined to three resort communities - the towns of Ketchum, Lava Hot Springs, and Sun Valley, and the maximum rate is 2.0%.

Oregon's Tax Structure

Most of Oregon's state revenues come from two sources - income tax (individual and corporate) and the state lottery. Income taxes are administered by the Oregon State Department of Revenue. State government receipts of income tax contribute to the state's general fund, the growth of which is controlled by a State constitutional ban against an operating fiscal deficit. Property taxes are administered by the county in which the property is located. Local governments rely mostly on property taxes.

Facts about Oregon's taxes:

Oregon imposes:	**Oregon does not impose:**
Individual income tax	Retail sales and use taxes
Corporate income tax	Property tax on motor vehicles
Tax on capital gains	Property tax on business inventories
Property tax	
Estate tax	

Individual Income Tax
Individuals with taxable income greater than $5,000 and on joint returns greater than $10,000 must pay individual income taxes. The current maximum rate is 9 percent. Although the tax features graduated tax rates, because of the size of the income brackets and the fact there are only three tax rates, the maximum rates are reach relatively quickly to become essentially a flat rate tax for taxable household income above $10,000. A local personal income tax of 1.25% also applies for residents of Multnomah County (Portland).

Corporate Income Tax
Oregon levies a 6.6% tax on Oregon taxable income. A minimum tax payment of $10.00 is required, regardless of income. Like Idaho (and other states with an income tax), multi-state corporations must apportion their total income nationwide to determine what amount is subject to Oregon's tax (Oregon taxable income). Oregon uses an unusual three-factor formula (consisting of property, sales, and payroll factors) to apportion income to their state. Oregon's sales factor is 80% of its apportionment method with payroll and property each representing 10%. In 2006, the sales factor increases to 90 percent with payroll and property decreasing to 5% each. In 2008, Oregon's apportionment method will be based entirely (100%) on sales. As a result, new capital investments or payroll expenses in Oregon will themselves create no additional exposure to Oregon's corporate income tax.

Property Tax
The Oregon Constitution caps the property tax rate at no more than 1.5 percent of real market value, excluding certain special levies. The taxable assessment value can increase by no more than 3 percent per year for existing properties, but it must always be equal to or less than the property's real market value.

Property taxes are levied by the state, cities and counties, as well as service districts for fire protection, libraries and so forth. The tax applies to privately owned real property and personal property (equipment and non-inventory supplies) used to produce income or capable of producing income.

Retail Sales Tax
Oregon does not impose a retail sales tax.

Washington's Tax Structure

Washington state government is supported primarily by retail sales and business and occupation (B&O) taxes. Retail sales tax and the B&O tax are administered by the Washington State Department of Revenue. Property taxes are administered by the county in which the property is located. Local governments rely primarily on sales and property taxes.

Facts about Washington taxes:

Washington imposes:	**Washington does not impose:**
Business and occupation tax	Individual income tax
Retail sales and use taxes	Corporate income tax
Property tax	Tax on capital gains
Estate tax	Property tax on motor vehicles
	Property tax on business inventories

Income Taxes
Washington does not impose an individual income tax or a corporate income tax.

Business and Occupation Tax
Washington imposes a business and occupation tax. The B&O tax is basically a tax on gross business receipts with no deduction for costs of doing business, such as payments for raw materials or wages paid to employees. Various B&O tax rates apply depending on the classification of business activities. The major classifications and tax rates are: (1) manufacturing at 0.484%; (2) wholesaling at 0.484%; (3) retailing at 0.471%; and (4) services at 1.5%. Businesses are taxable according to the activities in which they engage. Consequently, a business may be subject to more than one B&O tax rate, depending upon the source of their income.

The B&O tax only applies to business activities taxing place in Washington. Consequently, sales of goods that are delivered outside Washington are not subject to B&O tax.

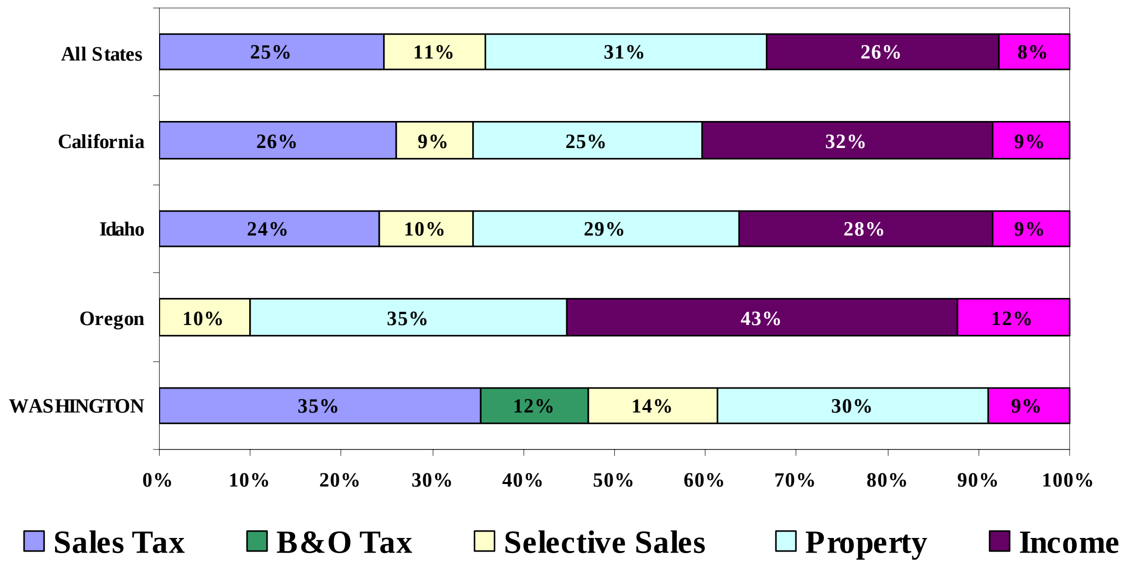
Retail Sales Tax
Washington imposes a 6.5% retail sales tax. In general, the tax applies to goods; construction, including labor and materials; repair of tangible personal property; lodging for less than 30 days; long-distance telephone service and nonresidential telephone service; and participatory amusement and recreational activities. Some personal and professional services, such as landscape maintenance and physical fitness, are taxable. Food and prescription drugs are exempt from tax. The sales tax is Washington's single largest source of revenue and is deposited into the general fund.

There are seventeen different types of local option sales taxes of which thirteen are paid by consumers and four are credits against the state's sales tax. Local sales tax rates range from 0.5 percent to 2.4 percent depending on jurisdiction. The combined sales tax rate currently ranges from 7.0 to 8.9 percent for most taxable retail sales (7.3 to 9.2 percent for vehicles).

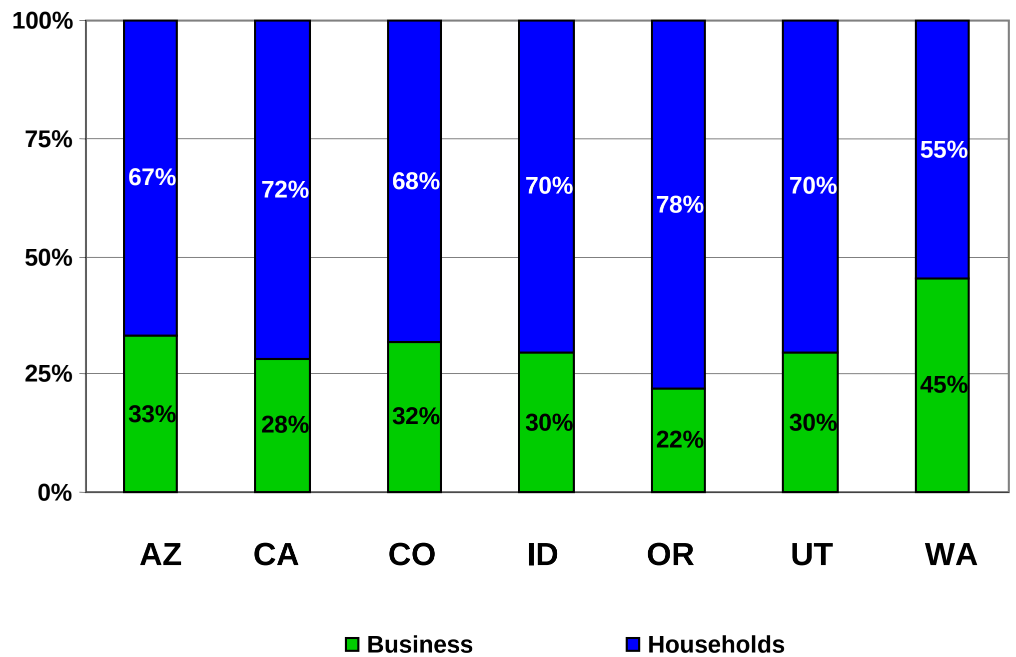
Property Tax
The state constitution caps the property tax rate at no more than 1 percent of fair market value, excluding voter-approved special levies. A taxing jurisdiction's regular levy can increase by only 1% per year without voter approval.

Property taxes are levied by the state, cities and counties, as well as junior taxing districts such as fire districts, hospital districts, and libraries. The tax applies to privately owned real property and personal property (equipment and non-inventory supplies) used in a business. Washington is unusual among states in that it has a state school levy that flows into its general fund, but is earmarked by the Washington State Constitution for funding K-12 education.

The following compares the major tax sources in the western states as a percentage of total tax revenues. As seen, the Idaho system is much closer to the national average than either of its two neighboring states.



WA business tax burden highest among western states



V. Tax Incentive Comparisons

Background

Table 3 provides a summary of tax incentives by industry for Washington, Oregon and Idaho. The tax structure of Washington differs fundamentally from that of other states. This explains, in large measure, why our economic development tax incentives are somewhat unique. A principal distinction between our state and most others is that Washington does not levy a corporate income tax. A gross receipts (Business and Occupation) tax and relatively high sales and use taxes compensate for the absence of a corporate and personal income tax. Neighboring states frequently allow credits and deductions against corporate income taxes, sometimes in the form of investment tax credits, as incentives for business and job creation. Such tax mitigation measures are often applied broadly across industry sectors. Because the Business and Occupation tax is essentially an activity-based tax, Washington's tax incentives are more diverse and narrowly tailored to distinct types of business activities.

The Business and Occupation tax rate applied to companies in Washington varies based upon business activity (a single business can pay several business and occupation taxes, with each having a different rate, depending upon the diversity of its business ventures). One of the primary tools for encouraging economic development has been the establishment of a preferential (lower) tax rate for a given business activity, such as the manufacture of commercial airplanes, aluminum, and solar energy systems. The Legislature has also offered Business and Occupation tax credits based on new jobs created by a specific industry (i.e., semiconductor) or in distinct geographic locations (i.e., community empowerment zones). Less common incentives entail full business and occupation tax exemptions for certain industries (such as agricultural production).

Washington’s state and local sales and use taxes have spawned a variety of economic development tax incentives as well. These can be more accurately viewed as representing measures that “level the playing” field with other states that may not levy a sales tax, or that impose one at a lower rate or on different items than Washington. Sales and use tax exemptions have been enacted by the Legislature on the basis of business activity (i.e. manufacturing M&E exemption), purchases of specific items (i.e., computers used in printing and publishing), and geography.

Several economic development tax incentives in Washington are predicated on the geographic location of a particular enterprise, such as tax credits for call centers and software development. The nature of these incentives can be expansive, including sales and use tax exemptions and Business and Occupation tax credits and deductions. However, these incentives are commonly available to distinct industry sectors.

Washington’s tax structure alone has not dictated the type or scope of economic development tax incentives used to encourage business expansion, retention and recruitment. The State Constitution has governed this area of public policy as well. Relevant articles of the constitution generally prohibit the lending of public credit to private entities, require the demonstration of the “public interest” in the conveyance of a permissible public “subsidy” to a private sector recipient, prohibit non-uniform property and sales tax treatment, and prohibit preferential tax treatment within a closed class of taxpayers. These prescriptions are not entirely unusual among the states, but they do limit the prerogatives of the State to offer particular forms of tax mitigation and they often impel policy-makers to seek creative approaches to fashioning incentives for economic development.

The sections in this chapter discuss economic development tax incentives in the context of significant cost considerations for companies as they evaluate business retention, expansion, or relocation decisions: Land and building, workforce, distribution, equipment and income. Although local economic development professionals engage in competition for business recruitment, retention and expansion with virtually every state and sometimes other countries, they are most often challenging Oregon and Idaho. Therefore, this report applies cost categories cited above to tax incentives available in Washington as well as Idaho and Oregon for each of our targeted sectors: Aerospace, life sciences, alternative energy, food processing, value-added forest products, technology, and distribution.

In evaluating Washington’s competitiveness, it is apparent that some tax exemptions, credits and deferrals simply mimic the tax treatment of certain business activities in Idaho and Oregon. These “incentives” merely mitigate a tax obligation; they keep Washington from being eliminated from consideration for business investment rather than affording our state a competitive advantage. Better-known examples of these “tax incentives” involve manufacturing (i.e., the sales and use tax exemption for machinery and equipment used by a manufacturer for manufacturing or research and development activities and the sales tax deferral/exemption on investments used for manufacturing and/or research and development in rural areas, community empowerment zones or counties with a community empowerment zone). Comparing Washington’s economic development tax incentives to those of other states necessitates an appreciation of how certain “tax incentives” are not incentives per se, instead they serve to compensate for the manner in which a business activity is taxed – or not – in a competing state.

Conversely, the tax treatment of high technology and life sciences businesses is an example where Washington does enjoy a competitive edge over other states. The Business and Occupation tax credit for research and development expenditures and the statewide sales tax deferral/exemption on investments used in high technology research and development provide a much higher benefit to these firms than those offered in Idaho and Oregon. The same is true for the tax treatment of aerospace and alternative energy industries. When Washington fails to attracts firms in these industries the cause is generally states incentives related to property development financing and workforce development, not taxes.

The remaining sections of this chapter facilitate further analysis of the economic development tax incentives that actually produce a desired objective, those that may not have be as effective, and those that are deficient or lacking and, as a result, fail in comparison to other states with respect to attracting investment by certain kinds of companies or activities.

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
Land/Building									
WA	• Current use property tax program • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• B&O credit for property taxes paid on property used for manufacture of commercial airplanes or components of such airplanes • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Retail sales tax deferral/exemption for high technology firms • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Retail sales tax deferral/exemption for high technology firms • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Property tax and leasehold excise tax exemptions for alternative fuel manufacturing facilities • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Retail sales tax deferral/exemption for fresh fruit & vegetable processors • Retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties / distressed areas	• Warehouse tax incentive	• B&O tax credit for property taxes paid on aluminum smelters • B&O tax credit for sale tax paid on aluminum smelter tangible personal property. • Sales tax exemption for semiconductor facilities (not effective) • Property tax exemption for semiconductor machinery and equipment (not effective)
OR	• Small tract forest land (STF) severance tax • Forestland valuation program • No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas	• No sales tax on construction • Strategic investment program • Energy conservation facilities • Oregon enterprise zones (44 rural, 5 urban) • Tax abatements in non-urban enterprise zones / distressed areas
ID	• Property taxation of forest lands under the productivity option	• Investment tax credit • Small employer growth incentives exemption	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate	• Investment tax credit • Small employer growth incentives exemption • Corporate

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
	• Investment tax credit • Small employer growth incentives exemption • Corporate headquarters incentive exemption	• Corporate headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption	headquarters incentive exemption
Workforce									
WA	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Tax credit for jobs in software development • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit • Rural county/CEZ B&O tax credit for new employees • Employee training tax credit	• Commute-trip reduction tax credit	• Commute-trip reduction tax credit • B&O tax credit for international service activities in eligible areas with new employment positions • B&O tax credit for semiconductor jobs
OR	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Dependent care tax credits • See Energy conservation facilities in Land/Building section	• Water transit vessel credit • Dependent care tax credits • See Energy conservation facilities in Land/Building section
ID	• New job income tax credit for manufacturers & processors • New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit for manufacturers & processors • New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit for manufacturers & processors • New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit for manufacturers & processors • New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit for manufacturers & processors • New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit	• New job income tax credit • Small employer growth incentive / corporate headquarters incentive new job income tax credit

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
Income									
WA	• Small Timber Harvesters tax credit • Salmon Habitat tax credit	• Manufacturers of commercial airplanes or components of such airplanes tax rate • Aircraft repair services tax rate	• B&O tax exemption for research and development grants • Non-profit research and development tax rate • Royalty and licensing income tax rate • Tax Credit for Help-Desk Services in rural counties	• B&O tax exemption for research and development grants • Non-profit research and development tax rate • Royalty and licensing income tax rate • B&O tax exemption for blood, bone and tissue banks; organ procurement organizations, and comprehensive cancer care centers	• Solar system manufacturing tax rate • Alternative fuel manufacturing tax rate • B&O tax deduction for alternative fuels		• B&O tax exemption for fresh fruit & vegetable processing • B&O tax exemption for beef products • Processors of perishable meat, dry peas, dairy products, seafood, flour and oil tax rate	• B&O tax deduction for Grocery Co-ops	• See list of preferential B&O tax rates • B&O tax deductions and credits are also available for selected industries • PUT credit for contributions to rural economic development fund • B&O and PUT tax credit for Main Street Program contributions
OR	• Apportionment • Reforestation tax credit • Fish habitat improvement tax credit • Fish screening devices, by-pass devices or fishways tax credit • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment • Small city/distressed area income tax exemption • See Tax abatements in non-urban enterprise zone/distressed areas in Land/Building section	• Apportionment	• Film production development contributions tax credit • Oregon Capital Corporation investments tax credit • Trust for Cultural Development Account contributions tax credit • Apportionment • Small city/distressed area income tax exemption
ID	• Apportionment	• Apportionment	• Apportionment	• Apportionment	• Apportionment	• Apportionment	• Apportionment	• Apportionment	• Apportionment

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
Distribution									
WA	• Interstate transportation equipment tax exemption	• Interstate transportation equipment tax exemption			• Retail sales tax exemption for equipment used in retailing of alternative fuels • Interstate transportation equipment tax exemption	• Interstate transportation equipment tax exemption	• Warehouse tax incentive • Interstate transportation equipment tax exemption	• See Warehouse tax incentive in Land/Building section	
OR	• No sales tax on tangible personal property • Diesel engine replacement • Motor vehicle insurance • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • See Energy conservation facilities in Land/Building section			• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • Alternative fuel vehicle fueling stations • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • Diesel engine replacement tax credit • Motor vehicle insurance tax credit • See Energy conservation facilities in Land/Building section
ID	• International registration plan exemption	• International registration plan exemption			• International registration plan exemption	• International registration plan exemption	• International registration plan exemption	• International registration plan exemption	• International registration plan exemption

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
Equipment									
WA	• Exemption for machinery and equipment used by a manufacturer	• Exemption for machinery and equipment used by a manufacturer • Retail sales tax exemption for computer equipment used in aerospace preproduction development • Retail sales tax refund of airplane prototype parts	• Exemption for machinery and equipment used by a manufacturer	• Exemption for machinery and equipment used by a manufacturer • Retail sales and use tax exemption for blood, bone and tissue banks; organ procurement organizations, and comprehensive cancer care centers • Retail sales tax exemption for medical research	• Exemption for machinery and equipment used by a manufacturer • Electricity generating equipment sales and use tax exemption	• Exemption for machinery and equipment used by a manufacturer	• Exemption for machinery and equipment used by a manufacturer	• See Warehouse tax incentive	• Retail sales tax exemption for computer equipment used in printing and publishing • Retail sales tax exemption for gases and chemicals used in semiconductor manufacturing
OR	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • See Energy conservation facilities in Land/Building section	• No sales tax on tangible personal property • On-farm processing facilities tax credit • See Energy conservation facilities in Land/Building section		• Plastics recycling equipment tax credit • Electronic commerce equipment used in designated enterprise zone tax credit

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
ID	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials • Retail sales tax exemption for logging equipment	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials • Retail sales tax rebate for electricity generating equipment	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials	• Retail sales tax exemption for pollution control equipment • Retail sales tax exemption for manufacturer machinery, equipment & materials • Retail sales tax exemption for research and development equipment & materials		• Retail sales tax exemption for equipment to produce certain newspapers • Retail sales tax exemption for equipment used in radio and television broadcasting • Retail sales tax exemption for aerial passenger tramways, snowgrooming, and snowmaking equipment • Retail sales tax exemption for clean rooms • Tax credit for qualified equipment utilizing post-consumer waste or postindustrial waste. • Retail sales tax exemption for pollution control equipment
Other									
WA	• High technology research and development tax credit	• B&O tax credit for aerospace preproduction development expenditures • High technology research and development tax credit	• High technology research and development tax credit	• High technology research and development tax credit	• PUT credit for self-generated renewable energy • High technology research and development tax credit	• High technology research and development tax credit			• Public utility tax exemption for power for electrolyte processing • Public utility tax exemption for power for aluminum smelters • Brokered natural gas tax exemption for aluminum smelters

Table 3. Summary of Available Tax Incentives by Industry for Washington, Oregon and Idaho

Incentive/ State	Forest Products	Aerospace	Technology	Life Sciences	Alternative Energy	Manufacturing	Food Processing	Distribution	Other Industries
OR	• Pollution control tax credits • Research and development tax credit	• Pollution control tax credits • Research and development tax credit	• Pollution control tax credits • Research and development tax credit	• Pollution control tax credits • Research and development tax credit	• Pollution control tax credits • Research and development tax credit • Alternative energy device, energy efficient appliance, alternative fuel vehicle tax credit	• Pollution control tax credits • Research and development tax credit	• Pollution control tax credits • Research and development tax credit		• Pollution control tax credits • Research and development tax credit
ID	• Research and development tax credit • Broadband telecommunications credit	• Research and development tax credit • Broadband telecommunications credit	• Research and development tax credit • Broadband telecommunications credit	• Research and development tax credit • Broadband telecommunications credit • Private and public organizations exempt from sales and use taxes	• Research and development tax credit • Broadband telecommunications credit	• Research and development tax credit • Broadband telecommunications credit	• Research and development tax credit • Broadband telecommunications credit		• Research and development tax credit • Broadband telecommunications credit

Comparison of Tax Incentives for Land and Buildings

Overview
Washington is one of only a few states that impose sales tax on both the labor portion of a construction contract and the materials used in construction. The states that tax construction in this manner include Arizona, Hawaii, Kansas, Mississippi, New Mexico, South Dakota and Washington. Conversely, Oregon imposes no sales tax, and therefore, sales tax does not apply to either construction labor or materials. Idaho imposes sales tax only on the materials used in construction, which is consistent with the tax treatment of construction in other states.

Because of the heavy initial impact of sales tax on construction due to the broad tax base and the high tax rate, the tax may inhibit the development of new businesses in Washington, especially capital-intensive industries. It is estimated that a combined state and local sales tax rate of 8.5 percent or more now applies to over 60 percent of all taxable retail sales within Washington. A combined rate of 8.8 or 8.9 percent (most of King and Snohomish counties) applies to nearly 50 percent of all retail sales in the state.

In response to this issue, the Legislature has enacted three programs that allow for the deferral of sales tax on qualified buildings and machinery and equipment for certain businesses. If program conditions are met, a portion of the deferred sales tax is waived each year. After eight years, the entire deferred sales tax is waived. The three programs apply to high technology businesses, manufacturers in rural counties and distressed areas, and beginning July 1, 2007 fresh fruit and vegetable processors.

Oregon has a Strategic Investment program, which is offered statewide to similar businesses Washington's deferral/waiver programs are directed (manufacturing, high tech, food processing, aerospace, etc.). Oregon also has an Enterprise Zones program, which is similar to Washington's rural county/distressed area program by being geographically limited to rural/distressed urban areas and limited to manufacturing. However, both Oregon programs provide property tax incentives, *in addition to*, the savings from no sales tax construction.

Idaho offers a statewide Small Employer Growth incentive program and Corporate Headquarters incentive program that provide sales tax rebates (in part and in whole, respectively) on construction costs as well as property tax and income tax relief. Idaho's programs are statewide and available to any type of business. However, the business must make large investments ($500,000 and $5 million, respectively) in headquarters or corporate offices in Idaho, meet certain employment levels with employees earning high wages ($19.23 and $24.04, respectively).

Potential Issues for Further Review
The Work Group recommends the Commission consider further examination of the costs and benefits of the following issues:

- Should the state exempt the labor portion of a construction contract from sales tax? The estimated revenue loss for the state would be $400 million for calendar year 2005. Local governments would also experience a revenue loss of approximately $80 million. A majority of the 2002 Washington State Tax Structure Study Committee recommended that the Legislature exempt construction labor from retail sales tax if the exemption is revenue neutral (i.e. the loss of revenue is offset by another source of revenue).

- Should the current deferral/waiver program for manufacturers in rural counties and distressed areas be expanded statewide as are the programs for high technology businesses and fruit and vegetable processors to compete with Oregon and Idaho's tax treatment of construction?

- The current deferral/waiver program for high technology businesses is available for firms engaged in research and development in five areas of high technology research and development – advanced computing, advanced materials, biotechnology, electronic device technology, and environmental technology. Should other types of high technology be included in the program? Should the program be expanded to include any research and development operation?

- Should the current deferral/waiver program for manufacturers in rural counties and distressed areas be modified to use a standard other than the Community Empowerment Zone (CEZ)? The current program is available to any manufacturer located in a rural county (defined as a county with a population of less than 100 persons per square mile), in a CEZ, or a county with a CEZ. Firms that use the deferral in counties with CEZs must meet certain employment requirements, relating to the level of deferral requested. Employees hired pursuant to the requirements must be residents of the CEZs.

- Should Washington use wages/benefits provided to employees rather than employee residence in a CEZ as a program requirement? Could Washington use a different identifier such as a participant in WorkFirst or other state-sponsored workforce training programs to meet the intent of the CEZ, but provide a wider pool of potential employees to program participants?

Comparison of Tax Incentives for Equipment

Overview

Washington and Idaho both impose sales tax on tangible personal property. Consequently, machinery, equipment, supplies and other consumables used by businesses are subject to sales tax. Conversely, Oregon imposes no sales tax.

In 1994, the Legislature asked the Department of Revenue to study the impact of Washington’s tax system on the manufacturing industry. The study found was that Washington was at a disadvantage when measured against its field of competitor states. The recommendation of the Department was to focus on capital investment, and target sales tax as offering the best return on investment, as well as being an area where Washington’s tax treatment was out of line with most other states. In 1995, the Washington State Legislature enacted the retail sales and use tax exemption for machinery and equipment used by a manufacturer ("M&E exemption") to encourage the state’s private sector to commit to continuous improvement of process, products, and services; to deliver high quality, high value products through technological innovations; and to support and attract a diverse, stable, and competitive economic base the development of new businesses and the retention, expansion, or modernization of existing businesses.

Idaho similarly has retail sales and use tax exemptions for machinery, equipment and materials used directly in manufacturing, processing, mining, fabrication, or logging operations; and for clean rooms used in semiconductor and semiconductor equipment manufacturing. Idaho also has retail sale and use tax exemptions for machinery, equipment and other tangible personal property used in research and development related to the manufacture of products or their components.

It is difficult to compete with Oregon's lack of a sales tax. However, Washington's M&E exemption and Idaho's exemption are comparable. The exemptions cover the same types of business, machinery, equipment, and support facilities. Both exemptions contain exclusions such as buildings, hand tools, and property with a useful life of less than one year. Both states' exemptions include machinery and equipment used in research and development by a manufacturer.

However, Idaho does provide separate retail sales and use tax exemptions for state/federally required pollution control equipment for any person. Washington's exemption for pollution control equipment is part of the M&E exemption, and therefore, is available only to manufacturers. However, the practical effect of that limitation is insignificant. From 1967 to 1981, Washington provided tax incentives on for the construction of state/federally required pollution control equipment and facilities. Manufacturers were the overwhelming beneficiaries of that program.

Idaho also offers an investment tax credit equal to three percent (3%) of the amount of qualified investments made during a taxable year. Qualified investments include machinery and equipment, including pollution control equipment. The credit is applied against the state's corporate income tax and may be carried forward up to 14 years. Oregon also offers corporate income tax credits for pollution control technologies or facilities. The maximum credit is 35 percent of the certified cost of the qualifying investment in the facility and equipment, after allocating proportional costs for pollution control. The annual credit that may be claimed is spread out over the useful life of the facility, up to 10 years. It would be problematic to provide similar credits under Washington's B&O tax because it is a gross receipts tax without deductions for costs of doing business.

Potential Issues for Further Review

None. Washington's tax treatment of machinery and equipment is competitive with other states that impose a sales tax. This conclusion is consistent with the responses received from local Economic Development Councils that the state's M&E exemption was a critical tool for their recruitment efforts.

Comparison of Tax Incentives for Business Income

Overview
Oregon levies a 6.6% tax on Oregon taxable income. Idaho levies a 7.6% tax on Idaho taxable income. Both states have largely adopted the federal Internal Revenue Code as the basis for their state's income tax.

Washington is unique in that it imposes a business and occupation tax. The B&O tax is basically a tax on gross business receipts with no deduction for costs of doing business, such as payments for raw materials or wages paid to employees. Consequently, whether a business has earned a profit is irrelevant to taxation. Various B&O tax rates apply depending on the classification of business activities. The major classifications and tax rates are: (1) manufacturing at 0.484%; (2) wholesaling at 0.484%; (3) retailing at 0.471%; and (4) services at 1.5%. However, there are a total of 21 preferential B&O tax rates in addition to those major tax rates. Because businesses are taxable according to the activities in which they engage, a business may be subject to more than one B&O tax rate, depending upon the source of their income.

The 2003 Washington State Tax Structure Study found that Washington's tax system places a relatively high tax burden on low profit margin firms mainly because of the B&O tax. Due to the B&O tax, low profit margin firms and firms that are new or expanding may suffer a competitive disadvantage compared to their competitors in other states. Firm location studies show that taxes matter in location decisions when other factors are equal. Business taxes are generally lower in Oregon. Since Washington and Oregon are similar in many respects, lower business taxes could entice businesses to locate in Oregon rather than Washington. The Tax Structure Study's analysis of industries that are likely to have competitors in other states shows that many firms with higher profit margins enjoy lower tax burdens in Washington as compared to most competitor states.

Potential Issues for Further Review
The Work Group recommends the Commission consider further examination of the costs and benefits of the following issues:

- Should the B&O tax be replaced? The 2003 Washington State Tax Structure reviewed several alternatives, alone or in combination, to replace the B&O tax – a subtraction method business value added tax, a corporate income tax, and a personal income tax.

- In lieu of replacing the B&O tax, should the state eliminate or consolidate preferential B&O tax rates and major tax exemptions to simplify the tax system? The additional revenue could be used to reduce state B&O and public utility taxes rates in general.

- Should the state review tax preferences on a systematic basis to make sure economic and social goals are achieved? In good economic times, the Legislature is able to invest in Washington's economy by providing business incentives and exemptions designed to bolster the economy. These exemptions become a permanent part of the tax system because exemptions and incentives are rarely repealed, even after they cease to be an effective means of stimulating the economy. The narrowing of the tax base caused by the accumulation of these exemptions puts more of a tax burden on nonexempt entities. A systematic review would help ensure fair application of tax incentive programs by requiring a periodic review of whether the programs are meeting established policy goals.

Comparison of Tax Incentives for Workforce

Background
Of the three states, Idaho offers the most in terms of direct tax relief for new job creation. Idaho offers a $500 income tax credit is available for manufacturers and processors of natural resource products for new jobs. Idaho also offers a $1000 income tax credit is available for any business that adds new employees whose annual earnings average $15.50 per hour or more and who are eligible to receive employer provided coverage under an accident or health plan. For firms that take advantage of the Small Employer Growth incentive or Corporate Headquarters incentive, the $1,000 income tax credit can increase up to $3,000 as employee wages increase. For all credits, the business' average employment for either the prior taxable year or the average of three (3) prior taxable years (whichever is higher) must increase.

Washington also offers a tax credit to manufacturing, research and development, or computer-related service firm that locates or expands in a rural county or CEZ and increases its prior year employment by 15%. The amount of credit ranges from $2,000 to $4,000 depending on worker wages and benefits. Washington also tax credit for state-approved training costs associated with employment at facilities that qualify for the retail sales tax deferral/exemption for manufacturers and research and development firms in rural counties/distressed areas. The credit is limited to $5,000.

Oregon offers no direct tax relief for new jobs or training. However, Oregon recently established the Governor's Strategic Training Fund to finance incumbent worker training for existing Oregon businesses, industry or worker associations that is expected to result in new jobs, job retention, or higher incomes for Oregon residents. Funding decisions are made by the Governor. Likewise, Idaho has a Workforce Development Training Fund that helps eligible Idaho companies with up to $2,000 per employee for job skill training. Applicants for both Oregon and Idaho's Training Funds must meet additional program criteria before funds are authorized.

Potential Issues for Further Review
The Work Group recommends the Commission consider further examination of the costs and benefits of the following issues:

- Should Washington's tax credit for new jobs to manufacturing, research and development, or computer-related service firm that locates or expands in a rural county or CEZ be expanded? Are there other industries that the state should be targeting? Can the requirements to apply before hiring and that employment increase by 15% be modified to help small businesses qualify?

- Should the state offer a tax incentive related to workforce training that is available statewide?

- Are tax incentives the best strategy for funding workforce training? Oregon and Idaho's Training Funds provide flexible funds for workforce training that target those states' economic development strategies, bolster their community/technical college system, and provide appropriate oversight to ensure that funds are used appropriately. A tax credit cannot provide the same benefits to the state – flexibility with oversight.

Comparison of Tax Incentives for Apportionment

Overview
All states have to deal with the issue of how to determine what portion of the income generated by businesses operating in their state and other states they should subject to tax in their state. "Apportionment" is a method for dividing the gross service income of a multi-state taxpayer among the states in which it does business. Essentially all income tax states use some variation of an apportionment formula that consists of the portion of sales, property, and payroll in their state versus all states in which these firms operate.

Under Washington law only service-taxable activities are apportionable. Washington's current apportionment formula, adopted in 1939, is based on the cost of doing business in Washington versus the cost of doing business everywhere. The apportionment formula is a fraction, the numerator of which is the cost of doing business in Washington, and the denominator is the total cost of doing business everywhere. The business' total income earned inside and outside of Washington is multiplied by the resulting fraction/percentage to determine the amount of service income subject to Washington's B&O tax.

Idaho uses a traditional three-factor formula (consisting of property, sales, and payroll factors) to apportion income to their state; the sales factor is double-weighted. Oregon uses an unusual three-factor formula (consisting of property, sales, and payroll factors) to apportion income to their state. Oregon’s sales factor is 80% of its apportionment method with payroll and property each representing 10%. In 2006, the sales factor increases to 90 percent with payroll and property decreasing to 5% each. In 2008, Oregon’s apportionment method will be based entirely (100%) on sales. As a result, new capital investments or payroll expenses in Oregon will themselves create no additional exposure to Oregon’s corporate income tax.

Washington's current tax policy of focusing solely on the costs of doing business may not provide the best environment in which to locate either a regional or national headquarters or expand business activities in Washington. This is because cost apportionment may apportion many costs to the headquarters of the business. Simply shifting a regional headquarters to Washington may have a significant impact on a business's tax liability, even if no additional business is done in Washington. This can place Washington at a disadvantage in relation to other states and can place Washington headquartered businesses at a competitive disadvantage.

Washington's cost apportionment method is out-of-step with a substantial majority of states, including our neighbor states. Moreover, the cost apportionment formula, while simply stated, is very difficult to calculate. Costs are not allocated by where the activity occurs, but are determined by the relationship of the costs to the taxable activity. Washington is somewhat unique in requiring this type of calculation, so multi-state businesses operating in Washington must maintain at least two separate sets of records.

Potential Issues for Further Review
The Work Group recommends the Commission consider further examination of the costs and benefits of the following issues:

- Should Washington adopt a three-factor apportionment method, which is used most commonly throughout the nation? The use of a three-factor formula would remove one of the competitive disadvantages of locating in Washington. In-state businesses that perform significant services outside the state will not be overburdened because they choose Washington as the place to locate their headquarters. Businesses with significant multi-state operations should lower their costs of compliance by reporting in Washington using an apportionment method that is consistent with other states, maintaining only one set of records and having similar compliance requirements for all multi-state operations.

- If Washington were to adopt a three-factor apportionment method, should the sales factor be given any greater weight?

Comparison of Tax Incentives for Other Industries

Overview
All three states offer a tax credit for research and development. Idaho and Oregon have both adopted the federal Internal Revenue Code (IRC) tax credit for research and development (R&D) spending. The IRC defines R&D spending as reasonable costs incurred for activities intended to provide information to help eliminate uncertainty about the development or improvement of a product. Reasonable costs include operating expenses, wages and benefits, supplies, and computer expenses directly incurred while conducting the R&D. The tax credit is available to any business. However, the credit is allowed only for incremental R&D spending over an initial base, following a complex procedure. Oregon's R&D credit is equal to 5% of R&D spending and is limited to $500,000 (increases to $750,000 in 2006). Idaho's R&D credit also is equal to 5% of R&D spending, but is not capped.

Washington also has a tax credit for R&D spending, but it is limited to five specified high technology categories[*]: 1) advanced computing, 2) advanced materials, 3) biotechnology, 4) electronic device technology, and 5) environmental technology. In order to qualify, a business must spend at least 0.92% (0.0092) of its total taxable income upon qualified R&D within Washington. Unlike the federal IRC credit, the credit is available for all R&D spending incurred in the tax year that exceeds 0.92% of total taxable income. Prior to 2004, the credit

[*] The aerospace preproduction development tax credit provides a similar, but larger, tax credit for the research, development, design and engineering of commercial airplanes and components of commercial airplanes.

equaled 1.5% of R&D spending. In 2004 the amount of credit was decreased. In 2005 legislation was enacted to phase-in over four years the restoration of the credit to 1.5% of R&D spending. Washington's tax credit is capped at $2 million annually.

In 2003, the Department of Revenue conducted a study of Washington's high technology R&D credit. When compared to Nevada, Oregon, California, North Carolina, Texas, and Missouri, Washington’s high technology R&D credit provided a greater dollar savings to the firms than the other credit programs, except for California (and Texas in the case of software). The reason for this is that Washington's credit is taken for nearly the full amount of annual R&D expenditures, rather than just the addition over an initial base; this tends to outweigh the higher credit rates allowed in the other states. Additionally, the study found that R&D credit programs in other states that piggyback on the federal IRC tax credit are difficult to use. Washington's credit is much easier to calculate, and consequently, more small firms take advantage of the credit.

Potential Issues for Further Review

The Work Group recommends the Commission consider further examination of the costs and benefits of the following issues:

- Washington's R&D tax credit is limited to five areas of high technology. Should other types of high technology be added to the program?

- Washington's R&D tax credit provides high savings to fewer firms. If the tax credit is expanded to other areas of high technology or to all research and development activities (like Oregon and Idaho), should the savings to firms be reduced to offset the cost of expansion?

VI. Recommendations

Clearly, opportunities exist to improve our competitiveness. Changes that could be pursued to our economic development tax incentives could be systemic or targeted to distinct measures. A systemic change could entail, for example, converting our tax incentives from being narrowly tailored to particular industries ("boutique") to ones that broadly benefit the economy. Revisions to existing tax incentives could involve measures as minimal as altering definitions to enhance the effectiveness of the incentive.

Near-Term Recommendations

In conducting its assessment of tax incentives, the Work Group became aware of a number of largely non-controversial tax issues that could be resolved by legislation in the 2006 session. The group urges the Commission to support the following items:

Recommendation 1: Provide Uniformity for Deferral Programs
There are currently three programs that allow certain businesses to defer retail sales tax on the construction of new structures and the acquisition of machinery and equipment. If a business meets program requirements, a portion of the deferred sales tax is waived each year. After eight years, the entire amount of deferred sales tax is waived.

The three programs are:

- Chapter 82.60 RCW for manufacturing and research and development businesses in rural counties, Community Empowerment Zones (CEZs), and counties with CEZs ("the rural county deferral").
- Chapter 82.63 RCW for high technology businesses ("the high tech deferral").
- Chapter 82.67 RCW for fresh fruit and vegetable processing, research and development, and cold storage warehousing ("the fruit and vegetable processing deferral").

Because these deferral programs were enacted at different times and subsequently revised, the programs contain inconsistencies among application requirements; buildings eligible for the tax deferral; the amount of deferred tax waived annually; penalties; and other requirements. Legislation to combines the three programs into one uniform deferral program would simplify administration for both taxpayers and the Department of Revenue.

Recommendation 2: Improve B&O Tax Credit for New Jobs in Rural Counties
A manufacturing and research and development businesses in rural counties or Community Empowerment Zones may qualify for a B&O tax credit for new jobs created by the business. The amount of credit is based on the salary of the new job. Total credits that may be provided to business are capped annually at $6.75 million.

The business must apply for the credit before actual hiring for the job, which has proven to be a barrier to full use of the credit. Legislation to provide a business an additional 90 days from hiring to apply for the credit would improve access to the program, particularly small business.

Recommendation 3: Revise Tax Incentive Accountability Reports
Since the 2003 session, the Legislature has added accountability reporting requirements to new and expiring tax incentives. Legislation to require electronic reporting of the report, extend the due date of the report to from March 31st to April 30th, and provide a waiver of the due date in cases where the failure to file the report is due to circumstances beyond the taxpayer's control would improve administration for both taxpayers and the Department of Revenue.

Recommendation 4: Clarify Aerospace Legislation
While working with aerospace companies and local economic development officials in implementing HB 2294, the Departments of Revenue and Community, Trade, and Economic Development have learned that many firms that are bidding on or have landed contracts for work on aerospace projects are not eligible for the tax incentives. Although these firms are engaged in design and preproduction development activities identical to other aerospace manufacturers, they are not *manufacturers* as required by HB 2294. Legislation to extend the sales and use tax exemption for certain computer equipment used primarily in the development, design, and engineering of airplanes and airplane components and the B&O tax credit for preproduction development spending would improve Washington's competitive position in attracting aerospace firms to the state.

Recommendation 5: Extend Aviation Repair Services Tax Preference
In 2003, the Legislature reduced the B&O tax rate from 0.471 percent to 0.275 percent for retail sales consisting of the sale and repair of equipment used in interstate or foreign commerce by a person classified by the Federal Aviation Administration as a FAR part 145 certificated repair station with airframe and instrument ratings and limited ratings for nondestructive testing, radio, class 3 accessory, and specialized services. The reduced rate is intended to compensate for including the sales of parts and components in the B&O tax base. The reduced rate expires on July 1, 2006. Legislation to extend a reduced tax rate, consistent with other aerospace incentives, would improve Washington's competitive position in expanding other aerospace service activities in the state.

Longer-Term Recommendation

As this report shows, Washington's economic development tax incentives are designed, on the whole, to defer, reduce or avoid costs (taxes) in return for the economic and social benefits that derive from business retention, expansion, or recruitment. Some tax incentives are obviously beneficial. The merits of certain economic development tax incentives are most particularly discernible when they involve new businesses locating to the state: The growth of warehouse distribution facilities can be attributed at least in part to the tax treatment they receive. But the effectiveness of other economic development tax incentives may prove more difficult to evaluate based on a conventional analysis; such incentives may require alternatives to qualitative measures to analyze their contribution to our economy. The Work Group realizes that identifying economic development tax incentives that produce their desired result and those that are deficient or lacking in comparison with competing states requires more time and more extensive data and survey information.

Furthermore, the Work Group acknowledges that the process of evaluating economic development tax incentives can be controversial, and it does not represent the broad and diverse array of stakeholders that should be involved in such an exercise in order for it to be successful.

This report represents an initial step in commencing a dialogue among constituencies and policymakers on the strengths and weaknesses of Washington's economic development tax incentives. The Work Group strongly believes that such a discussion should be engaged. For that reason it requests that the Commission accept the following recommendation:

Recommendation 6: Continue the Evaluation of Economic Development Tax Incentives
The methodologies employed and research conducted by the Work Group, as presented in this report, should serve as the basis of further assessment of the efficacy of Washington's economic development tax incentives. The Economic Development Commission proposes in this Recommendation to continue the effort started by the Work Group with a goal of producing recommendations to the Department of Community, Trade and Economic Development and Governor Christine Gregoire for improving our tax incentives. This project can be undertaken in incremental stages.

It should be noted that the outcome of the *Cuno v. DaimlerChrysler* case, which is presently before the United States Supreme Court, may warrant a thorough study and determination of how our economic development incentives could be adapted to a new legal paradigm. The competitiveness of our incentives will assume an entirely different orientation should the U.S. Supreme Court invalidate tax credits or property tax incentives for economic development. The Economic Development Commission should be prepared to respond to any uncertainties that may arise from the *Cuno* case.

The first action to be commenced involves reconvening the Work Group. It will be responsible for performing additional analysis, which entails the preparation of a Final Report, and devising a Work Plan to guide the project. Among other details, the Work Plan should: (1) Describe specific activities that should be conducted to complete the project; (2) identify how advisory committees can be utilized, including a description of the composition and function of these committees and a proposal for how the Commission can facilitate and lead these committees; and (3) establish timelines for the completion of designated tasks. The Work Group should present its Work Plan to the Commission for approval at its second quarter meeting in 2006.

The Work Plan could, for example, include a recommendation that the Commission form an advisory committee to develop models or methodologies to objectively assess the effectiveness of tax incentives for economic development. The effectiveness of an incentive could be defined in terms of money invested in the project in this state, the number of jobs created or preserved, the multiplier effect a project on job creation in an area, the amount of additional tax revenue that may derive from a project, or a combination of these and other factors. This exercise could include identifying a means to quantify both the impacts and benefits of economic development tax incentives on the future tax revenues of state and local governments. The Work Group recognizes that factors used to perform an evaluation of tax incentives may vary depending upon the nature or public policy goal of a given economic development tax incentive. Such an advisory committee need not be exceedingly large, though it should include representatives of the economic development professionals, site selection consultants, labor organizations, and general business associations.

A myriad of reports have already been published that can assist the advisory committees. Among the documents worth reviewing are the following: *Economic Impacts of the Manufacturers' Sales Tax Exemption*, by the House Finance Committee Staff; *High Tech R&D Tax Incentive Study*, by the Department of Revenue; *Warehouse and Distribution Study*, by the Department of Revenue; *2005 Report on Selected Tax Incentive*s, by the Department of Revenue; *Tax Incentive Comparison of Six States and One Province* (1999), by the Department of Community, Trade and Economic Development; documents prepared by the Department of Revenue for the Washington Tax Structure Committee (2002) on the state's economic vitality; and, *Economic Incentives: Keeping and Attracting Business* (2002) by the Washington Roundtable. Existing research and literature should be utilized as much as possible, to avoid duplication.

The second responsibility of the Work Group will be to prepare a Final Report, an augmented version of this report. The Work Group will expand the comparative analysis embodied in this report to include other states with which Washington competes to retain and recruitment businesses; the Work Group may perform additional surveys to complete this task. Based upon this assessment, the Work Group should revise, as necessary, the "potential issues for further review" it has advanced in this report.

Furthermore, the Final Report should clearly delineate the strengths and deficiencies of Washington's economic development tax incentives relative to competitor states for the targeted sectors identified in the strategic economic development plan. For that purpose, the Work Group should review available literature, such as the Tax Structure Study (2002), that examined the impacts of the state's Business and Occupation (B&O) tax the economy and identify which industries or business activities the B&O tax system benefits and which ones it disadvantages, and how.

The Final Report should also contain a contingency plan that would describe how the Commission should respond, if warranted, to an adverse ruling in the Cuno case, anticipating that a decision may not be issued until later in 2006. The Final Report should be completed and submitted to the Commission at its second quarter meeting.

The second stage of the process to evaluate our economic development tax incentives may require the establishment by the Commission of advisory committees, comprised of stakeholder representatives and led by members of the commission, to assume tasks assigned to them by the Commission. In creating advisory committees and assigning them responsibilities, the Commission should consider the Work Plan and Final report submitted by the Work Group. The advisory committees will be expected to utilize the Final Report, as well as other studies they deem appropriate, to perform their activities and develop recommendations to the Commission.

Finally, the Commission should review the Final Report in conjunction with reports prepared by the advisory committees and render its own conclusions for the purpose of issuing recommendations to improve the competitiveness of our tax incentives. In performing these functions, the Commission should endeavor to work on the basis of consensus.

APPENDIX A:
DETAILED ECONOMIC DEVELOPMENT COUNCIL SURVEY RESPONSES

Economic Development Commission
Tax Incentive Assessment

1. What are Washington's tax incentives that you most frequently use in the recruitment or retention (to include expansion) of businesses in your area?

Grays Harbor EDC and Film Office
We use the state-wide machinery sales and use tax exemption, the sales and use tax exemption for new construction and retrofit for manufacturers, and the B&O tax credit for new employees of manufacturers and call centers. We also use the JSP funds for training when available

Kitsap County EDC
Industrial Revenue Bonds
Manufacturing Sales and Use Tax Exemption
High Tech B&O Tax Credit
CEZ (Bremerton)

Pacific County EDC
Most of the tax incentives do not apply to rural areas. Our primary businesses are retail or service with less than 40 employees.

Spokane Area EDC
We most often use the sales tax deferral/exemption program associated with the Community Empowerment Zone.

Cowlitz County EDC
Most frequently used are:
B&O Tax Credit for new employees ($2,000 or $4,000) (distressed area)
Sales Tax exemption on machinery and equipment
Sales Tax exemption on new manufacturing construction (distressed area)
Workforce Development Opportunity Fund (through SWWDC)

City of Richland
We have most frequently used CERB, although not a tax credit. Otherwise, we have used the JARP Training and the R & D tax credits. While useful in some situations, these are clearly not adequate to make Washington competitive.

Columbia River EDC
First, Washington is competing for business locations regionally, nationally and globally. In my view Washington’s recruitment incentives are more attempts to reduce disincentives to investment as compared to inducements. Also, if we are truly honest, Washington’s incentives are largely intrastate inducement’s to locate in rural communities versus urban locations. They do little to incent firm’s from outside the region to choose Washington. Hands down, the sales tax exemption on manufacturing buildings and equipment is the

most widely used incentive. However, its importance in rural and urban communities is vastly different. In rural communities, where the total capital investment is exempted from sales tax, the incentive makes a project more profitable for the relocating firm. In general, it is not important to the location decision.

The incentive is beneficial to the firm as the start-up phase is expensive and unprofitable. So the incentive is important. I recruited a number of firm's to Clallam County who all used the manufacturing exemptions. All would have located in Clallam without the exemption in that the business required access to local resources (saw mills, ship yards and fishing). So while we insured the success of the venture by removing barriers to start-up, we did not incent their location.

In my experience the sales tax exemption is only key in border communities such as Clarkston, Spokane and Bellingham where out of state locations have no sales tax or rates are lower. In those instances, the rural sales tax incentive brings Washington to parity. It does not incent. It merely removes a barrier. In urban border communities where only equipment is exempted it only a partial offsets additional costs a firm experiences as compared to alternative state locations. In Clark County, a border urban community, the exemption reduces, but does not eliminate the added cost of a Washington vs. Portland manufacturing location. In some instances the remaining delta has pushed investments to Woodland in Cowlitz County. This underscores my point that Washington's manufacturing incentives only really work at the intrastate level for recruitment. They simultaneously frustrate Clark County's economic development objectives.

With all of the above the manufacturing sales tax incentive reduces a major disincentive to investment in expansion and recruitment. It must be maintained. The only other incentive I have found useful is the warehouse sales tax exemption for facilities over 200,000 feet. Again, it removes a disincentive for investment in Washington as compared to Oregon and Idaho. Distribution is a by definition, a regional competition. I do believe this exemption from sales tax coupled with our B & O approach to internal distribution is a true incentive tipping the balance in Washington's favor.

The remaining incentives are restricted to rural areas and largely ineffectual at recruiting new firms to the state. While they benefit companies after their location (see comments above) they do not pass the 'But For' test, i.e., but for the incentive, they would not have located in Washington.

Klickitat County EDC

As a distressed county targeting relocating light manufacturing firms, most of the state tax incentives are directly applicable to our target market. The negative news is that most small businesses lack the on-staff capability to fully assess the Washington incentives, especially given the difficulty in moving from a more traditional state tax environment to Washington. So although the state's tax incentives make us competitive, that message is not easy to convey unless it is being made by a tax professional who has taken the time to get a handle on the firm's tax situation.

Grant County EDC
We find the Manufacturers Sales and Use Tax Exemption, the Rural County Sales and Use Tax Deferral Program, the Rural County B&O Tax Exemption for New Hires and the Sales and Use Tax Exemption for Large Warehouses to be most helpful to our efforts. In addition while we do not have a call center at this time the incentives for those businesses are important tools as well.

Snohomish County EDC
The State has done a good job at providing tax incentives to some portion of the aerospace businesses within the State of Washington but has left out an even larger segment. The segment they have provided for are manufacturers of commercial airplanes and manufacturers of component parts that are installed on commercial airplanes. Equality needs to be provided for: Manufacturers of tooling and tool designs that are used by manufacturers of commercial airplanes and manufacturers of component parts that are installed on commercial airplanes. Manufacturers of ground support equipment (GSE) and GSE designs used by operators of commercial airplanes and component parts that are installed on commercial airplanes. Repair stations that provide maintenance, repair, and overhaul (MR&O) of commercial airplanes and component parts that are installed on commercial airplanes. Companies that provide design and engineering support to commercial airplanes and component parts that are installed on commercial airplanes.

Palouse EDC
We have utilized job training (OJT, JSP) via rural resources (rural investment act and community colleges). We also promote, but haven't yet used the rural tax incentives for buildings and equipment. For retention, we have used the HUD 108 Float Loan.

2. What states do you most often compete against when attempting to recruit or retain business?

Grays Harbor EDC and Film Office
Besides anyone from east of the Mississippi River, there is Oregon and Idaho. California because of the location of suppliers and customers

Kitsap County EDC
Oregon
Idaho
Nevada
California
Florida

Pacific County EDC
Rural areas compete within the state. For example: Seattle or Olympia are able to offer greater incentives.

Spokane Area EDC
We most often compete with Idaho & Oregon.

Cowlitz County EDC
Most often compete with Oregon

City of Richland
Idaho and Oregon and occasionally California**.**

Columbia River EDC
Clark County most often competes with Oregon, California, Japan and Taiwan for investment. Again, I must underscore that competition today is global. In many instances we are competing with global locations for reinvestment in expansion and retention in our existing businesses.

Klickitat County EDC
Oregon

Grant County EDC
Most often Oregon, Idaho, and California**.**

Douglas County EDC
For companies considering locating in Washington, our competition essentially includes 10 western states: Oregon, Idaho, California, Nevada, Arizona, New Mexico, Colorado, Montana, Wyoming and Utah. These are the alternate locations for a company to consider and if we loose a prospect it's because they choose one of these states instead of us. I've attached documents that describe incentives and wage rates that other states offer, and whatever changes we make must allow us to compete more effectively with these alternate locations.

Palouse EDC
We primarily compete with other western states, ID in particular. We also compete with Oregon, Wyoming, Montana, California, Nevada, sometimes Arizona, New Mexico, and occasionally but not too often Texas, Colorado, the Dakotas, and Ohio.

3. ***Please list experiences where you weren't able to recruit or retain a business because a competitor state was able to offer a tax incentive not currently available in Washington. Please identify the tax incentives these states have offered those businesses.***

Grays Harbor EDC and Film Office
Nucore Steel (ultimately did not go anywhere) choose Oregon because the state offered to pay to bring rail, gas and electricity to Coos Bay. They also offered a 15 year credit on property taxes. There are many other examples throughout the state. I hope you get the needed response**.**

Kitsap County EDC
No identifiable "losses" in last three years to out of state recruitment/relocation**.**

Spokane EDC
Buck Knives moved from San Diego to Idaho as a result of upfront payments from Idaho for employee training $2,000/employee. Royal Caribbean Cruise Lines chose Oregon as a result of no sales tax on construction and abatements of property tax.

Cowlitz County EDC
We lost deals in the past when other states offer property tax exemptions**.**

Columbia River EDC
We know for a fact that over the last year we were unable to recruit four firms to Clark County losing them to various locations in Portland, Oregon. In all instances, Oregon offered significant forgivable loans tied to job creation. Approximately $1.5 million was loaned (granted) to these firms. These clients were actively considering a Clark County location and would have created 500+ new jobs. For most, the Washington business case 3 was stronger. However, up front cash helped underwrite relocation costs or served as the equity share for financing new facilities. This underscores my point that while we reduce disincentives to relocation, we do not incent the recruitment of a new firm.

Klickitat County EDC
Although Klickitat County has an extremely small set of recruitment examples to draw on, the most recent effort was a Texas-based firm with a light manufacturing operation in Oregon that needed to relocate to expand. The local general manager, even after multiple presentations, remained uncomfortable with perceived issues surrounding the B&O tax. In addition, Oregon was able to provide direct relocation cost assistance that, while less valuable than site improvements offered by Klickitat County, did play a direct role in the facility staying in Oregon and moving from Hood River to The Dalles.

Grant County EDC
Montana has a very aggressive Tax Increment Financing Program available for industrial projects. It is very tough to compete for large capital investment projects when a major portion of the property taxes they will pay in that state can be used to support or pay for the cost of public infrastructure needed to support the project.

Palouse EDC
We have only dealt with a couple of recruitment cases…one went to Idaho, others have gone to Spokane and Pullman. Two incentives are used against us: Idaho's training incentive, where they use a different interpretation of lending of credit issue—they consider workforce training money as "contracts for services" to businesses. They pay up to $3000 per employee. The money in Idaho goes directly to companies for documented training reimbursement. The advantage to the company is that if they have their own training in place, they can implement it without going through the community college and then having to train the instructor to meet their needs. Texas does the same thing. Trainers within companies can be trained to their own specific curriculum!!!

Also, areas that give land, such as in Texas or just pay for employees---in marketing campaign, will give incentives per employee for new jobs created (up to $1mil). Explanations are available on the Texas website….

4. Please identify tax incentives you would like to see available for use in Washington to recruit and retain business.

Grays Harbor EDC and Film Office

1) Tax increment financing!
2) Direct payment to companies for training
3) Property tax relief for recruited or expanding businesses
4) B&O Tax relief equivalent to costs incurred due to state over regulation and requirements.

Kitsap County EDC

Tax Increment Financing

Pacific County EDC

Incentives for small business (less than 40 employees). Current incentives are for bigger business not effective for rural counties to recruit or provide retention services. Need to look at small businesses! They are the backbone of rural counties.

Spokane Area EDC

Expand CEZ program to allow for sales tax exemptions & B&O credits to be provided to more industry types. Perhaps base eligibility on company's wage rates rather than industry type. (Company must pay county median wage or above to qualify) Increase minimum gross income for small companies' payment of B&O by 2 times current level.

Cowlitz County EDC

We would like an easier method of tax increment financing**.**

City of Richland

We would like to see lottery dollars specifically earmarked for economic development. Otherwise, we would like to see more effective tax incentives tied to TIF financing and to redevelopment of underutilized areas.

Columbia River EDC

There are two incentive programs we should consider.
First, we must revisit the semiconductor incentives adopted with SB 5725 and adopt measures that truly incent reinvestment and expansion of the entire semiconductor cluster. SB 5725 went in the right direction, but time has shown that the changes made in the original bill reduced its effectiveness at incenting reinvestment. Both the trigger ($1 billion) and the 11th hour reduction in operating cost cuts are major issues. While 5725 served as the model for the Boeing bill, the aerospace and semiconductor clusters are structured differently in terms of major companies and breadth of investment. We are competing for major investments in this sector. Unfortunately, the incentives we adopted

will not be useful in that will not be triggered. Second, we need true workforce training incentives/ grants for recruited firms. The existing Job Skills Program is not a true training incentive given its financial limitations and exclusive use by the Community College system. Competing states frequently use direct grants managed by the client for customized training (see North Carolina for a best in class example). The CREDC uses our Workforce Development Council in a similar fashion but our resources are meager. We need a best-in-class workforce incentive program to be truly competitive.

Klickitat County EDC
I feel that the basic package is well-designed and comprehensive but that explaining how the incentives work remains difficult. Relocating firms want to know the direct impacts on them and are not interested in generic explanations on websites or publications. The small firms we target are also not interested in performing comparative analyses themselves.

There is also a recurring question about "Is it an enterprise zone". While the person asking rarely seems to fully understand the implications of enterprise zone status, it comes up often enough that getting more areas designated enterprise zones may be worth considering.

I have also been impressed with how well the Oregon "shovel-ready site" designation seems to have worked.

Grant County EDC
A substantial State supported Workforce Training Assistance program. A user- friendly and meaningful TIF program. A state utility tax incentive program for industrial (manufacturing and food processing) power users of gas and electric utilities. A state program for eliminating state fuel and sales tax on biodiesel or ethanol that is produced and sold in Washington.

Douglas County EDC
An incentive that I believe would be very effective would be a fund to provide for relocation assistance. This is a significant cost for any business, and what keeps many companies from locating here from such locations as California. Frequently, we hear companies comment that they would readily leave the Golden State if it didn't cost so much to move away. The relocation fund could be in the form of grants or low interest loans based on the size of employment, wage rate, or some other measurable criteria. This idea has a historical precedent. In the early history of the west, land grants and other economic benefits were provided to settlers who moved into this area. It helped to offset the cost of relocating from the east to the west.

Snohomish County EDC
The State has also done a good job at providing tax incentives to aerospace companies that own propertied within the State of Washington but has left out an even larger segment, those that lease. Equality needs to be provided for. In order to qualify for the B&O tax credit , the aerospace manufacturer must own the qualifying property for which it pays property taxes. A significant portion of the aerospace manufacturers are are lessors (who

are not aerospace manufacturers). The B&O tax credit also only applies to manufacturers of commercial airplanes and manufacturers of component parts that are installed on commercial airplanes. The B&O tax credit needs to be expanded include those identified above. Aerospace encompasses a very large group of companies that provide goods and services. Current legislation only provides incentives for manufacturers of commercial airplanes and manufacturers of component parts that are installed on commercial airplanes. If the State of Washington is really serious about becoming the Center for Aerospace Excellence, legislation needs to be broadened to include manufacturing and engineering for: space vehicles, space exploration, military aircraft including unmanned vehicles. It should include the manufacture and engineering of component parts that are installed on space vehicles, space exploration, military aircraft including unmanned vehicles.

Palouse EDC
Education and training program should be more like Idaho's. We need TIF like Idaho…we cannot use state portion (majority of tax). Idaho uses the full amount, but I'm not sure how. I think that in Washington, state property taxes MUST go to schools—not lending of state credit issue. In IOWA, schools can "opt in" to have the state portion used.

For rural counties with a limited number of recruits, we have a lack of infrastructure and facilities. For example, we have a retail project in Clarkston that is looking at some property that does not have sewer. CERB won't look at that because it's not manufacturing. But if we can't locate a grocery store and other retail businesses, we won't be able to attract other business such as manufacturers.

We also promote the ability to sell "credits" for rural tax incentives to non-rural counties…

The State has to be creative for companies expanding in I-5 corridor, to look to EXPAND to rural areas. There should be incentives to encourage this so that companies will expand inside the state, rather than outside the state.

5. *Other Comments*

Klickitat County EDC
As a "border county", Klickitat County is able to get a clear picture of Oregon recruitment/retention efforts. In addition, as a former Pacific Power employee, I have seen the economic development programs in seven of the Western states. I feel that the State of Washington provides local economic development practitioners with exceptional state employee colleagues to work with; that the CERB, Public Works Trust Fund, and CDBG programs are essential elements in local efforts; and that while it would be nice to focus mostly on retention, the local situation in Klickitat County puts a heavy emphasis on recruitment.

To that end, I would like to raise two points in addition to the answers provided below: First, while the state recruitment staff works hard to support us and is extremely responsive when an opportunity arises, there is an inescapable sense that the rural counties are the stepchildren of the state's overall effort. Our highest potential target market is drawing light manufacturing out of the Portland Metropolitan area. The most effective message to that end is currently being generated by the I-5 industrial parks and ports. An overall state framework for conveying this message would be invaluable.

And second, the state's tax structure is not a liability except to the extent it is difficult to explain. We need additional support from OFM and CTED in packaging side-by-side examples of how various target businesses would be affected in a move from Oregon, Idaho, and California to Washington. And when any of us at the local or state level get an interested out-of-state business, we need immediate support in translating that firm's current tax situation into a Washington context. We only get one shot at presenting this information, and it takes a tax professional to convey both the information and authoritatively answer the follow-up questions. If state employees aren't available for this, on-call consultants would be my second choice. Although state staff would be more effective.

Yakima County EDC

Incentive Policy Suggestions:

The Governor can promote accountability by:

- Directing state agencies to change tax credit applications to get better up-front and tracking information
- Directing state agencies to cooperate with one another to get and track key information on applicants who use programs (ex. Dept. of Revenue & Employment Security)
- Individual company information should largely be confidential, but this does not detract from the state's ability develop a meaningful informative profile of incentive users in an aggregate form (ex. the 40 companies who used high tech tax deferrals)
- Ensuring that all credits/incentives have sunset provisions
- Ensuring that incentives are tied to legitimate public policy goals (ex. rural diversification, high tech retention) AND more importantly that these incentives clearly advance these policies in a cause/effect manner
- Suggesting that more incentives may be necessary but that all new proposals for incentives be clearly outcome oriented.
- Developing master application for all incentives to get good background information on companies applying for these resources;
- Considering tying programs together with job creation as the underlying qualifying criteria (ex. in order to get a rural sales tax exemption on building the company must first qualify for a B&O tax credit for new job creation).
- Ensuring that companies applying for incentives are in compliance with state and federal regulations (ex. environmental, safety, etc.)
- Requiring companies using incentives to pay an average plant-wide wage equal to or exceeding the average wage for the County in which they are expanding. If they

cannot meet this eligibility requirement then they would be required to post all new job openings with the local or regional worksource center

Where incentives may be warranted:

- Workforce training. Promoting tax credits for companies that fund training projects that are approved by accredited workforce training institutions. Companies would ideally have to add jobs…qualifying for the B&0 tax credit first as an access to these additional credits would ensure that job growing companies use these resources
- Tax increment financing. The Governor's EDGE proposal has merit and represents a reasonable approach short of amending the State Constitution
- B&O Tax credits for Backoffice operations that locate in rural areas or State Empowerment Zones
- Sales Tax Caps or Credits on phone bills for Backoffice operations that locate in rural areas or State Empowerment Zones
- Tapping existing Community Development Block Grants to support business investment projects.

APPENDIX B:
CURRENT TAX INCENTIVES FOR KEY INDUSTRIES IN WASHINGTON, OREGON AND IDAHO